Revenue
New Issue

San Antonio, Texas

San Antonio International Airport

Ratings

New Issue

Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (Alternative Minimum Tax Bonds) .... A+

Outstanding Debt

Airport System Improvement Revenue Bonds .... A+

Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds .... A+

Rating Outlook .... Stable

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New Issue Details

$40,975,000 Passenger Facility Charge and Subordinate Lien Airport System Revenue Improvement Bonds, Series 2005 (Alternative Minimum Tax Bonds), are scheduled for negotiated sale on or about May 3, 2005 through a syndicate led by Siebert Brandford Shank & Co., LLC.

Purpose: Proceeds will finance all or a portion of the construction of a new Concourse B, an elevated terminal roadway, an upgrade of the central plant, apron replacement, and new utilities.

■ Outlook

The 'A+' rating reflects the San Antonio International Airport's (SAT, or the airport) growing regional economic base; high level of origination and destination (O&D) traffic and diverse carrier mix, reducing the airport's financial exposure to any one carrier; and modest capital program and future debt needs, which should maintain the airport's low cost structure. Credit concerns include a significant tourism component in the local economy, which may create slightly higher volatility in enplanement levels than at similarly sized airports; the pending expiration of the airport's use and lease agreement in a period of financial uncertainty for the domestic airline industry; and below average liquidity levels. The Stable Rating Outlook is based on the recent recovery in enplanements, modest increase in service levels from incumbent airlines, expected inauguration of service by Frontier Airlines, and modest future capital needs.

■ Rating Considerations

SAT ranked as the nation's 46th busiest airport in 2004, based on preliminary statistics from Airports Council International — North America, having served 3.5 million enplaned passengers for the year. This represents a 7.6% increase from 2003, comparable to the national average gain for the year but remaining 4.1% below the peak established in 2000. Originating enplanements represented approximately 90% of the total in 2004, indicating that passenger volume is influenced more by local and national economic trends than the scheduling decisions of any particular airline.

A diverse mix of carriers serves the airport, led by Southwest Airlines (Southwest, senior unsecured debt rated 'A' by Fitch) with 36% of enplanements in 2004, followed by American Airlines (American, senior unsecured debt rated 'CCC+' by Fitch) and its regional affiliates with 18.9%, Delta Air Lines (Delta, senior unsecured debt rated 'C' by Fitch) and its regional affiliates with 12.9%, and Continental Airlines (Continental, senior unsecured debt rated 'CCC+' by Fitch) and its regional affiliates with 12.1%. Frontier Airlines plans to start serving the airport in June 2006, and incumbent airlines have steadily increased service to cities including Detroit and San Francisco. International enplanements, while having increased at a 3.5% average annual rate since 1995, historically represent approximately 3.0% of the airport's total traffic. The airport's consultant projects enplanements to increase at a 2.4% average annual rate from 2004–2009, a rate Fitch views as reasonable.

The airport's use and lease agreement expires in September 2006. Its cost recovery formula for the airfield and compensatory rate setting in the terminal provide for the airport's consistently sound financial performance.

April 29, 2005

STANDARD &POOR'S	RATINGSDIRECT

Return to Regular Format

Research:

Summary: San Antonio Intl Arpt, TX; Transportation, Airport

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Credit Profile

US$40.975 mil subord passenger fac charge ser 2005 dtd 07/01/2005 due 07/01/2025	A-
Sale date: 05-MAY-2005	

AFFIRMED	
San Antonio, Texas	
$52.165 mil. San Antonio (San Antonio Intl Arpt) arpt sys forward rfdg rev bnds ser 2003 dtd 04/08/2003 due 07/01/2004-2013	AAA/A+(SPUR)
$38.000 mil. San Antonio (San Antonio Intl Arpt) arpt sys imp rev ser 1996 dtd 07/15/1996 due 07/01/1999-2016	AAA/A+(SPUR)
$92.470 mil. San Antonio (San Antonio Intl Arpt) arpt sys imp ser 2002 dtd 03/01/2002 due 07/01/2027	AAA/A+(SPUR)
$17.795 mil. San Antonio (San Antonio Intl Arpt) arpt sys improv ser 2001 dtd 08/15/2001 due 07/01/2014-2016	AAA/A+(SPUR)
$11.430 mil. San Antonio (San Antonio Intl Arpt) rfdg arpt sys rev bnds ser 2003A&B dtd 04/01/2003 due 07/01/2003-2009	AAA/A+(SPUR)
$37.575 mil. San Antonio (San Antonio Intl Arpt) subord passenger fac charge ser 2002 dtd 03/01/2002 due 07/01/2027	AAA/A-(SPUR)
OUTLOOK:	STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'A-' rating to San Antonio International Airport, Texas' subordinate lien passenger facility charge (PFC) bonds series 2005.

At the same time, Standard & Poor's affirmed its 'A-' rating on the city's outstanding PFC and subordinate lien airport system revenue bonds and its 'A+' rating on the city's outstanding airport system revenue bonds.

The 'A-' rating reflects the airport's low airline costs; diverse carrier mix; strong origin and destination (O&D) market, offset by recent declines in debt service coverage levels; and a capital improvement program (CIP) that will result in high debt per enplaned passenger levels.

More specifically, the rating is based on the following factors:

- The airport has a strong O&D market (89%) and good diversity of carriers, with Southwest, American, and Continental accounting for a combined 66% of enplanements in 2004.
- Enplanements had grown at an average annual rate of 2.8% over the past 10 years, reaching 3.4 million in 2001. They declined 5.6% in 2001, however, largely as a result of the events of Sept. 11. In 2002 and 2003, enplanements further declined an additional 2.7% and 2.8%, respectively, over the prior-year period as a result of the continuing effects of Sept. 11 as well as the overall weakening in the economy. Enplanements rebounded 7.6% in 2004, indicating a recovery. Overall, the enplanement trends and recovery have been comparable with other medium hub airports.
- The San Antonio MSA benefits from a strong economy with low unemployment and a growing population. However, the overall wealth and income levels remain lower than the state's and the nation's levels.
- The airport has a low cost structure, with airline costs per enplaned passenger at $4.21 in 2004 despite the decline in enplanements. The 2005-2009 forecast provided in connection with this issuance anticipates that the cost will decline from this level despite additional debt issuances as the airport continues to experience a positive enplanement trend. The forecasts assume 2.5% growth per year.

Offsetting these factors are the airport's recent declines in debt service coverage levels on its airport system revenue bonds. The airport generated coverage of 1.7x or more from 1998-2002. Coverage declined to 1.35x in 2003, however, before improving to 1.41x in 2004. This is a result of management's efforts to keep airline costs low despite depressed enplanement levels, which resulted in weaker coverage compared with historic financial performance. Debt service coverage over the 2005-2009 period is expected to improve to 1.7x or better by 2008 as a result of improving passenger activity levels. Debt service coverage on the PFC and subordinate revenue bonds was 2.35x in 2004 and is anticipated to average 2.17x during the forecast period. Standard & Poor's calculates the debt service coverage for these bonds by adding the airport's net revenues and available PFC collections and dividing by all outstanding debt service, including the senior debt service.

The airport has moderate debt per enplaned passenger for a facility of its size. Debt per enplaned passenger is currently about $60 but could rise to $83 assuming future debt issuances in 2007 and 2004 enplanement levels. The five-year CIP calls for $341 million in expenditures, including the demolition of the existing Terminal 2 and construction of one concourse with seven gates. Other projects include additional parking, roadway improvements, and extensions and improvements to two runways (along with supporting taxiways and aircraft apron). To help finance this plan, the airport began collecting a $3 PFC in November 2001. In total, the airport intends to issue just $48 million in PFC debt and $32 million in general airport revenue bonds in 2007. No other debt issuances are planned to finance the 2005-2009 CIP. Additional funding for this project will come from federal funding ($93 million), the airport's own funds ($30 million), and prior bond issuances ($82 million), as well as pay-as-you-go PFCs ($23 million).

Bond proceeds from this issue will be used to help fund the CIP. The PFC and subordinate lien airport system revenue improvement bonds are secured by a combined pledge of PFC collections and a subordinate lien on airport system net revenues. The city covenants to budget during each fiscal year such that PFC revenues during the fiscal year will provide an amount equal to 1.25x the annual debt service requirements. The PFC additional bonds test is based on either a one-year historic coverage test or a three-year projected test that PFC revenues are sufficient to provide 1.25x the debt service requirements on the PFC bonds. While this rate covenant and additional bonds test level is lower than most PFC bond issuances that have covenants of 1.50x, bondholders benefit from a subordinate lien pledge of the airport's net revenues. Subordinate lien bonds are subject to a rate covenant of 1.10x the annual debt service obligations, and additional bonds backed by the subordinate lien can only be issued if historic subordinate lien net revenues are sufficient to provide 1.10x maximum annual debt service (MADS) coverage. The calculation of subordinate lien debt service for the rate covenant and the additional bonds test is more liberal than in most subordinate-lien transactions. Subordinate lien debt service is calculated based on net revenues after the payment of senior debt service obligations rather than net revenues of the airport system divided by all debt service obligations (senior and subordinate).

The airport system bonds are secured by a pledge and lien on the gross revenues of the airport. Bondholders will benefit from a fully funded debt service reserve fund; it is only funded based on average annual debt service, however, rather than the MADS. The additional bonds test requires either a certificate from the city of San Antonio stating that the net revenues from the prior fiscal year or in any 12 consecutive months out of the past 18 were at least equal to 1.25x MADS. Instead of obtaining a certificate from the city, the airport can obtain a consultant's certificate stating that the three-year projected net revenues are 1.25x debt service requirements.

Outlook

The stable outlook is based on the expectation that enplanement levels will continue recover and the airport will attain projected financial results and a return to its previous higher debt service coverage levels while maintaining its low cost structure.

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Underwriter: David Thomson, Siebert Brandford Shank & Co. (800) 508-4728

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Airline revenues have increased at a 7.0% average annual rate since 2000 due to the decline in non-airline revenues resulting from the downturn in enplanements and a lower credit to airlines under the agreement's revenue sharing provisions. Still, the airports cost per enplaned passenger (CPE) remained at a low $4.31 in fiscal 2004. Coverage of general airport revenue bonds (GARBs) debt service equaled a sound 1.4 times (x) in fiscal 2004, while coverage of passenger facility charge (PFC) subordinate lien GARBs equaled 6.0x for the year. The airport's consultant projects the CPE will remain low in comparison to other similarly sized airports at $3.87 in fiscal 2009, while coverage of the PFC subordinate lien debt exceeds 2.3x for the five-year forecast period.

The airport is in the midst of a $340 million capital program in which it will build a new concourse, increasing the number of gates to 28 from 24. Other improvements include extending the elevated terminal roadway, parking expansion, and airfield and apron improvements. The 2005 and previous borrowings represent 35% of total financing; pay-as-you-go PFCs, 7%; Federal Aviation Administration grants, 27%; and airport capital reserves, 9%. The remaining 22% will be derived from borrowings expected in 2007.

San Antonio is the second largest city in the state and eighth largest in the U.S., according to census information, with an estimated 2005 population of 1,282,400. The city is located in the south central area of the state, approximately 150 miles north, as well as east, of the border with Mexico and 75 miles south of the state capital of Austin. Prominent industries in the local economy are domestic and international trade, conventions and tourism, military and government employment, medical and health care, financial, and telecommunications. Its proximity and cultural similarities to Mexico provide a favorable environment for international business relationships. Southwestern Bell Corp., headquartered in San Antonio, recently announced purchase of AT&T Corp. Although the elimination of 12,800 jobs is expected from the merger, company officials expects the number in San Antonio to increase due to executive relocations from New Jersey.

Strengths

- Growing and diversifying service area.
- High proportion of O&D traffic.
- Low operating costs and CPE levels.
- Manageable borrowing needs.

Risks

- Strong tourism component of local economy may result in more enplanement volatility than at comparable airports, although the broader economy is diversifying.
- Lower than average liquidity levels.
- Use and lease agreement expires in September 2006.

Security

The bonds are secured by a first lien on all PFC revenues at the airport and a subordinated pledge of the net revenues of the airport system. The 2005 bonds are issued on parity with 36 million of outstanding PFC and subordinate lien revenue bonds. The airport also has 182.4 million of outstanding airport revenue bonds, which hold a priority lien on the net revenues of the airport system over the bonds.

Rate Covenant: The city pledges to maintain coverage of 1.25x debt coverage on all outstanding PFC obligations.

Rate Covenant for Subordinate Net Revenue Coverage: In the event that PFC revenue is insufficient to cover 1.25x debt coverage or if the city is no longer legally permitted to collect PFC revenue while PFC debt is outstanding, the city covenants to maintain rates and charges of the airport system, which will provide 1.10x subordinate net revenue debt service coverage for each fiscal year.

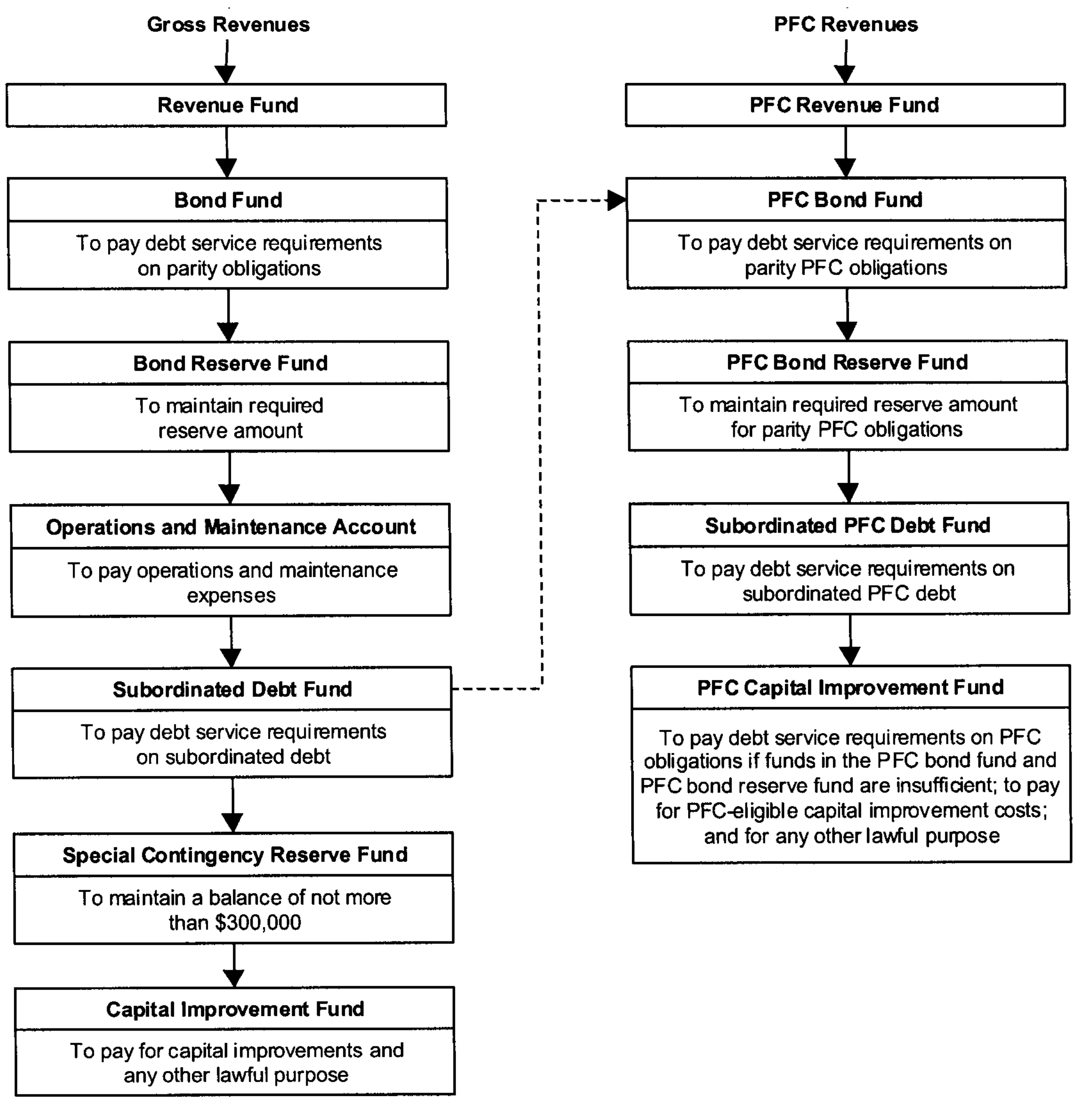
Debt Service Reserve Fund: The master indenture requires reserve amounts in the amount of average annual debt service and may be done so through cash or a credit facility.

Additional PFC Bonds Tests: There are three different possibilities for additional debt under the current existing PFC master and first supplemental indentures:

- Issuance of parity PFC bonds with subordinate lien revenue pledge.
- Issuance of parity PFC bonds without subordinate lien pledge.
- Issuance of indebtedness secured in whole or in part with a parity pledge of subordinate net revenues and not secured in whole or part by PFC revenues.

Also, the city covenants not to issue any other obligations with a pledge of subordinate net revenues superior to the lien on the subordinate net revenues pledged to PFC bondholders.

San Antonio Department of Aviation
Flow of Funds for Revenue Bonds and Passenger Facility Charge (PFC) Bonds



Additional Bonds Test for Parity PFC Debt with Subordinate Net Revenue Pledge. The city may issue additional parity PFC bonds with the subordinate net revenue pledge if:

- The city will not be in default upon issuance of parity obligations.
- The PFC bond fund and PFC bond reserve fund have the required amounts on deposit.
- For any 12 out of the most recent 18 months, the subordinate net revenues were at least 1.10x outstanding maximum annual debt service (MADS) prior to issuance and 1.10x MADS taking into account all parity debt after issuance of the additional bonds.

Additional Bonds Test for Parity PFC Debt without Subordinate Lien Pledge. The city may issue additional parity PFC bonds if:

- The city will not be in default upon issuance of parity obligations.
- The PFC bond fund and PFC bond reserve fund have the required amounts on deposit.

- An airport consultant projects that the estimated PFC revenues for each of the three fiscal years beginning in (whichever is later) the first complete year following estimated date of completion of PFC-related projects or the first complete fiscal year in which the city will have debt service payments, for which provision has not been made in the consultant's report, on the additional PFC bonds from proceeds of such parity bonds, investment income, or other appropriated sources are 1.25x debt service coverage on all parity PFC obligations.

As an alternative test the airport may show that PFC revenues for any 12 consecutive months of the previous 18 months provide 1.25x MADS coverage, taking into account aggregate debt service payments from the additional bonds.

Additional Bonds Secured in Whole or in Part with Parity Pledge of Subordinate Net Revenues.

- The city will not be in default upon issuance of parity obligations.
- The PFC bond fund and PFC bond reserve fund have the required amounts on deposit.
- For any 12 out of the most recent 18 months, the subordinate net revenues were at least 1.10x outstanding MADS prior to issuance and 1.10x MADS taking into account all parity debt after issuance of the additional bonds.

The Airport

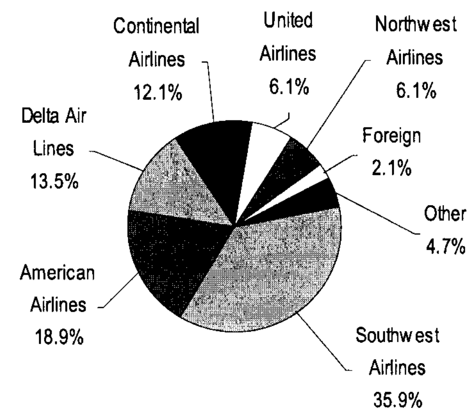
The city of San Antonio owns and operates the airport, along with Stinson Municipal Airport, a general aviation facility that is the second oldest municipally owned airport in the country.

SAT occupies a 2,600-acre site eight miles north of the central business district. The airfield consists of three runways, the longest of which measures 8,502 feet, and is capable of serving all commercial aircraft now in service. Its two terminal facilities provide access to 24 gates.

Airlines

The airport is served by a diverse mix of carriers, including American, America West, Continental Airlines, Delta, Midwest Airlines, Northwest Airlines, Southwest, and United Airlines. In addition, three Mexican airlines serve the airport, Mexicana, Aeromar, and Aerolitoral. Frontier has announced plans to begin serving the airport from Denver in June 2005. These airlines provided 123 daily nonstop flights during fiscal 2004, with 20 of the airports 25 largest markets receiving nonstop service. Southwest accounted for 35.9% of the airport's total enplanements in calendar 2004, followed by American and its affiliates at 18.9%, Delta and its affiliates at 13.5%, and Continental and its affiliates at 12.1%

Market Share — 2004
(Year Ended Dec. 31)

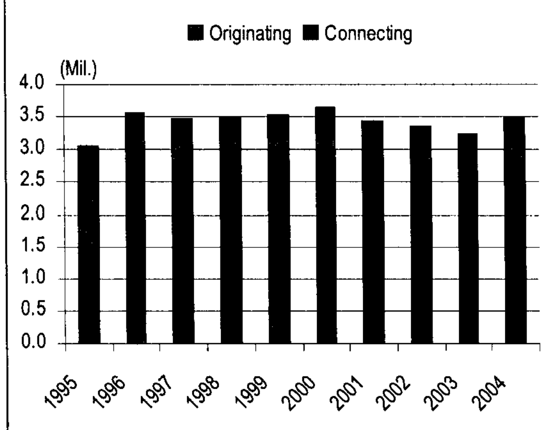


Note: Numbers may not add to 100% due to rounding.

Enplanements

Passenger traffic at the airport grew at an average annual rate of 3.9% from 1991–2000, reaching 3.64 million enplanements, compared with the national average of 3.1%. From 2000–2003 enplanements declined at a 3.8% average annual rate

Enplanements
(Years Ended Dec. 31)



reflecting the downturn in the national economy, the aftermath of the events of Sept. 11, and the onset of the Gulf War. Enplanements increased by 7.6% in 2004, slightly below the national average of 8.1%. Overall, enplanements at the airport averaged a 1.5% annual growth from 1995–2004, compared with a national rate of 2.1%.

The airport's consultant projects enplanements to rise at a 2.4% average annual rate from 2004–2009, when the airport is forecast to serve 3.9 million enplanements. The consultant's projection of a 4.1% increase for 2005 is based on the published schedules of airlines serving the market, while the 2006–2009 forecast reflects the results of a multivariate regression model based on non-agricultural employment activity, the price of air travel at the airport, and air travelers income as measured my the U.S. real gross domestic product per capita. The current forecast represents a bit of moderation from the airport's early forecast, which projected the airport would attain 4.6 million enplanements in 2009. Fitch views the current forecast as reasonable.

■ Airline Use and Lease Agreement

The city has executed use and lease agreements with eight of the major airlines serving the airport, which expire on Sept. 30, 2006, or the date of beneficial occupancy of Concourse B. Signatory carriers include Aerolitoral, American, Continental, Delta, Midwest, Mexicana Air, Northwest, Southwest, and United.

The airport's agreements with its signatory carriers are based on a compensatory rate-making methodology. Landing fees and terminal rentals are charged by cost center, and the fees and rental payments cover all costs, including debt service requirements associated with the cost center. All gates are assigned on a preferential basis, which allows the airport to reallocate its assets if an airline does not meet utilization standards. Although the agreements are compensatory, the airport shares surplus revenues with the airlines after the 125% rate covenant is satisfied. Of surplus revenues, 50% are refunded to the signatory carriers as a credit to the ensuing year's payments, and 50% are deposited into the airport's capital improvement fund. Landing fees, which are set by the city, are reviewed annually and adjusted on Oct. 1 of every year.

■ Finances

The airline agreement establishes the framework for the airport's consistently sound financial performance. In fiscal years 2000–2004 airline revenues increased at a 7% average annual rate. This offset the stable performance of parking and concession revenues, which were influenced by reduced passenger volume and an improved terminal retail program that was completed in 2003. The increased airline revenues largely resulted from a decline in the rental credit provided for in the lease agreement. Still, the airport's CPE remained at a comparatively low $4.31 in fiscal 2004.

Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2000	2001	2002	2003	2004*
Landing Fees	5,434	5,390	5,375	5,190	5,548
Terminal Rentals	4,708	5,979	7,357	9,466	8,266
Other Airline Revenues	1,120	1,135	997	924	926
Airline Revenues	11,262	12,504	13,729	15,580	14,741
Concessions	10,635	10,398	10,002	10,512	11,388
Parking	10,919	10,955	10,401	10,692	11,416
Interest Income	2,756	2,984	1,189	697	561
Other Non-Airline Revenues	5,952	6,088	7,057	6,449	6,624
Total Non-Airline Revenues	30,261	30,425	28,649	28,350	29,989
Gross Revenues	41,523	42,929	42,378	43,931	44,729
Airline Rental Credit	3,510	5,209	4,468	2,613	3,486
Adjusted Gross Revenues	45,033	48,138	46,846	46,543	48,215
Expenses	21,586	23,613	22,297	25,364	25,128
Net Revenue	23,447	24,525	24,549	21,180	23,088
Debt Service	11,966	11,961	13,442	15,660	16,342
Net Revenue DSCR (x)	1.96	2.05	1.83	1.35	1.41
Gross Revenue DSCR (x)	3.47	3.59	3.15	2.97	2.95
Airline Cost Per Enplanement ($)	3.1	3.5	4.1	4.8	4.3

*Unaudited. DSCR – Debt service coverage ratio. Note: Numbers may not add due to rounding.

Forecast of PFC and Subordinate Revenue Bond Coverage
($, Fiscal Years Ending Sept. 30)

	2005	2006	2007	2008	2009
PFC Revenue Projections					
No. of Enplanements	3,534,000	3,678,000	3,723,000	3,817,000	3,913,000
PFC Eligible (%)	92	92	92	92	92
No. of PFC Enplanements	3,251,000	3,384,000	3,425,000	3,512,000	3,600,000
PFC Rate	2.89	2.89	2.89	2.89	2.89
PFC Revenues	9,395,000	9,780,000	9,898,000	10,150,000	10,404,000
Net Revenues Available for PFC Coverage	6,117,000	7,530,000	8,524,000	12,233,000	13,626,000
Total Pledged Revenues	15,512,000	17,310,000	18,422,000	22,383,000	24,030,000
PFC Debt Service	3,248,315	5,779,484	7,735,483	9,687,579	9,690,910
PFC Coverage (x)	1.88	1.30	1.10	1.26	1.41
Pledged Coverage (x)	4.78	3.00	2.38	2.31	2.48
Budget Covenant					
PFC Revenue	9,395,000	9,780,000	9,898,000	10,150,000	10,404,000
Unused PFC Revenue on Deposit	18,916,721	22,430,812	22,655,867	21,736,270	14,842,561
Interest	413,475	450,867	443,921	365,788	276,631
Cumulative PFCs	28,725,196	32,661,679	32,997,788	32,252,058	25,523,192
Pay-As-You-Go	3,046,070	4,226,328	3,526,035	7,721,919	3,011,759
PFCs Available for Debt Service	25,679,126	28,435,351	29,471,753	24,530,139	22,511,433
Debt Service	3,248,315	5,779,484	7,735,483	9,687,579	9,690,910
Coverage (x)	7.91	4.92	3.81	2.53	2.32

PFC – Passenger facility charge. Source: San Antonio Aviation Department, Unison-Maximus, Inc.

Operation and maintenance expenses rose at a 3.9% average annual rate from fiscal 2000–2004, driven by a 5.2% average annual gain in personal services resulting from salary adjustments and the hiring of parking enforcement officers to replace employees of a private security firm (which also reallocated the accounting for this expense from contractual services to personal services). Net revenues provided 1.4x coverage of annual debt service on the senior lien bonds in fiscal 2004, down from 1.9x in 2001, largely reflecting the reduced revenue generated by non-airline activities.

The airport has received authorization to collect $167.1 million of PFC through three applications to the Federal Aviation Administration. The airport currently levies the PFC at the $3.00 level, which, based on current projections, would result in the airport reaching its authorized amount in April 2016. As the 2005 bonds mature in 2030, the airport must seek future PFC authorization to generate such revenue for the life of the bonds. Should the airport not have authority to collect additional PFCs, bonds will be repaid from the general revenues of the airport on a subordinate basis to the outstanding senior lien bonds. Combined PFC and subordinate revenues provided 5.7x coverage of fiscal 2002 debt service.

The airport historically maintains relatively low liquidity levels for a compensatory airport, at approximately $10.3 million in the O&M and capital improvement accounts. Mitigating the airport's low liquidity levels is the structure of the use and lease agreement, which allows the airport to generate extra cash through the course of the year, and SAT's low operating cost.

Forecast of Airport Revenue Bond Coverage
($, Fiscal Years Ending Sept. 30)

	2005	2006	2007	2008	2009
Gross Revenues	50,606,000	52,957,000	55,422,000	60,156,000	63,592,000
Less: O&M Expenses	(27,078,000)	(27,991,000)	(29,900,000)	(30,851,000)	(31,965,000)
Net Revenues	23,528,000	24,966,000	25,522,000	29,305,000	31,627,000
Parity Debt Service	17,411,000	17,436,000	16,998,000	17,072,000	18,001,000
Available for PFC Debt Service	6,117,000	7,530,000	8,524,000	12,233,000	13,626,000
Coverage on Gross Revenues	2.91	3.04	3.26	3.52	3.53
Coverage on Net Revenues	1.35	1.43	1.50	1.72	1.76
Enplanements	3,534,000	3,678,000	3,723,000	3,817,000	3,913,000
Cost Per Enplanement	4.03	3.88	3.79	4.1	3.87

O&M – Operations and maintenance. PFC – Passenger facility charge. Source: San Antonio Aviation Department; Unison-Maximus, Inc.

Based on its enplanement forecast, the airport's consultant projects debt service coverage on the airport's senior lien revenue bonds to increase from 1.35x in fiscal 2005 to 1.76x in fiscal 2009. This reflects a 10.4% average annual increase in terminal rentals, before the airline credit, reflecting the opening of the new Concourse B. Parking revenues are forecast to rise at a 9.6% average annual rate, while concessions increase by 3.1% annually. Operations and maintenance expenses are expected to grow at a 4.5% annual rate. PFC revenues and subordinate airport revenues are expected to provide 4.8x coverage of debt service in fiscal 2005, declining to 2.5x in fiscal 2009, reflecting the gradual ramp up of annual debt service requirements.

■ Capital Plan

The airport's current capital program totals $340.6 million and includes the construction of the new Concourse B (which will increase the number of gates to 28), demolition of the existing Terminal 2, airfield improvements, roadway and parking enhancements, noise abatement, cargo facilities, and improvements at Stinson Airport. The airport plans to finance these projects through a variety of sources, including proceeds from existing airport revenue (19%) and PFC (5%) bonds, this issuance (11%), PFCs on a current basis (7%), Federal Aviation Administration grants (27%), and cash reserves in the airports capital improvement fund (9%). The airport expects to finance the remaining amount through the issuance of $26.9 million in airport revenue bonds (8% of the total program) and $47.5 million in PFC bonds (14%) in 2007.

■ Service Area

Health care and bioscience, hospitality, and government employment, including the military, are the leading sectors of the local economy. The health care and bioscience industry is the largest segment for the city. With an estimated $11.1 billion economic impact in 2001, health care provided 14% of all jobs in the San Antonio area, employing more than 98,000, with an annual payroll of nearly $3.5 billion. The major components of this sector include the 900-acre South Texas Medical Center, with 10 major hospitals and the University of Texas Health Science Center at San Antonio; military health care, consisting of three major military hospitals; and biomedical research and development, including the Texas Research Park.

The hospitality industry, consisting of conventions and tourism, is a significant component of the city's economy, with an estimated annual economic impact of $7.2 billion and more than 86,000 employees. During 2002, San Antonio attracted nearly 20 million visitors, which resulted in direct spending of $4.8 billion in the city. To capture larger conventions, the convention center has undergone significant expansion and renovation. The project has been completed, giving the center 400,000 square feet of contiguous space. Plans are currently underway for the establishment of a convention center headquarters hotel. To address downtown parking needs for the hotel, the city parking system expanded the parking facility at the convention center.

Another principal component of the local economy is the military, represented by Lackland Air Force Base (AFB), Randolph AFB, and Fort Sam Houston U.S. Army Base. The property of a fourth installation, Brooks AFB, was transferred to the city as part of the Brooks-City Base Project, which is designed to lessen the operating costs of facility maintenance for the Air Force, thereby potentially reducing the possibility of base closure in the next round of deliberations scheduled for 2005.

The Air Logistics Center at Kelly AFB was closed in July 2001, which led to the establishment of the Greater Kelly Development Authority (GKDA). The goal of the GKDA is to create 21,000 jobs by 2006 at KellyUSA, the new business and industrial park, including the 12,000 lost as a result of realignment. To date, the GKDA has successfully leased 96% of 8.9 million square feet of space through the execution of 73 leases and attracted numerous companies, including Boeing Co., Lockheed Martin Corp., Chromalloy Gas Turbine Corporation, Standard Aero, General Dynamics, General Electric Co., and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued needs. These efforts have retained 7,400 military personnel and created more than 12,721 jobs at KellyUSA through its tenants. The next phases of development at KellyUSA will focus on establishing a port to serve international cargo, rail accessibility for inland port distribution, and expanding aviation maintenance, repair, and overhaul operations. Fort Sam Houston will benefit from the relocation of the U.S. Army South from Puerto Rico, bringing approximately 500 new jobs with an annual economic impact of $200 million.

From an employment and unemployment standpoint, San Antonio and the surrounding area have been faring well. The latest unemployment figures available, March 2005, equal unemployment rates of 5.1% for city residents and 5.2% for Bexar County. The corresponding rates for the state and nation are 5.5% and 5.4%, respectively. The civilian labor force has been growing modestly at about 1.2% annually over the past three years, while employment growth has averaged about 1.5% annually for the same period.

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